Rural Communities Infrastructure Incentives

H.R. 1959

A bill to help rural communities finance water, wastewater
and other essential community facility projects.

How does it work?

Rural communities often finance essential community projects (water, sewer, fire stations, health clinics, assisted living facilities etc.) by issuing tax-exempt bonds. Project financing costs are thereby reduced because investors are willing to accept a lower rate of return (knowing that the interest income generated by the bonds is not subject to taxation.)

Alternatively, some rural communities utilize USDA loan guarantees to finance these projects. Loan guarantees also confer lower financing costs because investors' risk is limited. In practice, these guarantees result in interest rates that are 1 to 1.5% lower than non-guaranteed loans.

Under current law, however, rural communities are not allowed to combine these two mechanisms (tax exempt bonds and loan guarantees) to further reduce financing costs. ***In other words***, local communities have to choose between USDA loan guarantees or tax exempt bonds.

The change proposed in H.R. 1959 would allow local project sponsors to utilize both USDA loan guarantees *and* tax-exempt bonds to achieve lower financing costs.

What are the benefits of H.R. 1959?

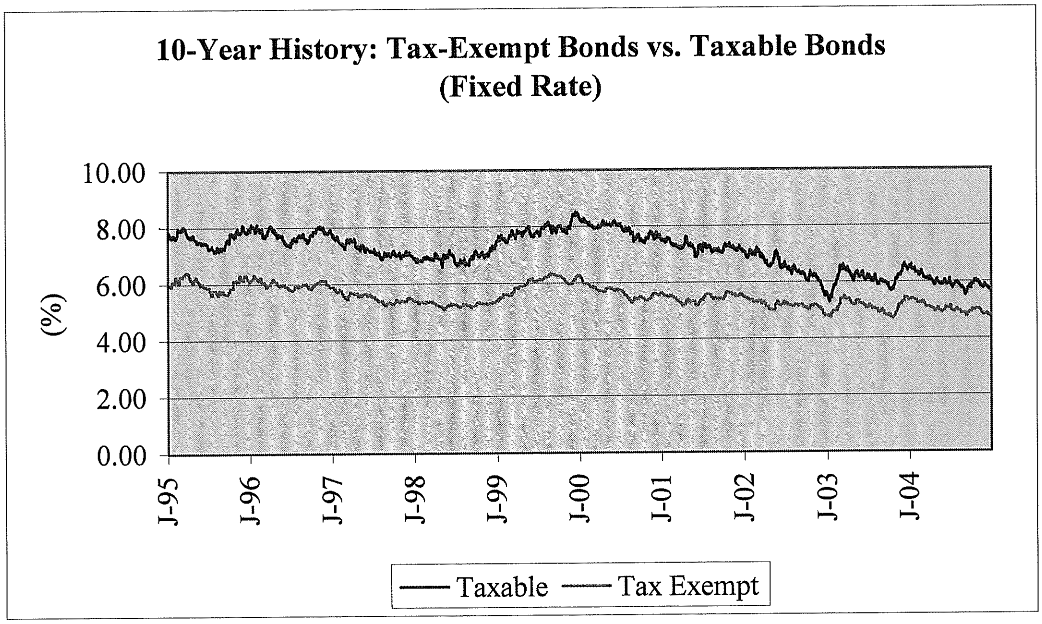
- lower end-user fees or reduced tax burdens on local residents,

- improved viability of rural lenders (USDA guarantees help preserve lending authority of rural banks, allow for longer-loan terms, reduce interest rates and improve the marketability of loans on secondary markets.)

- help in reducing the backlog of loans for small communities to build or improve water, wastewater, and essential community facilities. USDA Rural Development currently has an application backlog of over a billion dollars in water and wastewater project applications.

- improvements to critical infrastructure (water, sewer, medical facilities and public safety) help rural communities become more attractive to business and industry, thereby enhancing local economic activity.

What has been the historical difference between Taxable Bonds and Tax-Exempt Bonds?



How much difference does tax exempt financing make for individual projects?

Illustrative Tax-Exempt Interest Savings			
Project Size	$ 1,000,000	$ 5,000,000	$ 10,000,000
Annual Payments on Taxable Bonds	$ 71,449	$ 357,243	$ 714,485
Annual Payments on Tax-Exempt Bonds	$ 55,384	$ 276,920	$ 553,841
Annual Savings	$ 16,064	$ 80,322	$ 160,644
Total Savings over 25 Years	$ 401,610	$ 2,008,052	$ 4,016,104